San Diego HOUSING COMMISSION

REPORT

DATE ISSUED: December 17, 2007 REPORT NO: HAR 08-01

ATTENTION: Chair and Members of the Housing Authority
For the Agenda of January 22, 2007

SUBJECT: Final Bond Authorization for Bay Vista Methodist Heights (Council District 4)

REQUESTED ACTION:
Take the final step to authorize the issuance of Housing Authority mortgage revenue bonds for Bay Vista Methodist Heights (Bay Vista).

STAFF RECOMMENDATION:
Housing Authority authorize the issuance of up to $27,000,000 in multifamily housing revenue bonds to fund the acquisition and rehabilitation of Bay Vista, a 268-unit apartment complex located at 4888 Logan Avenue, by Bay Vista Housing Partners, L.P. (Bay Vista LP).

BACKGROUND:
The Project
Bay Vista is an existing 268-unit affordable housing complex located at 4888 Logan Avenue. The project includes 100 two-bedroom and 168 three-bedroom units in 32 buildings. Bay Vista also includes three playgrounds, a community room, and an on-site daycare facility. The property was built in 1969 by a non-profit affiliate of St. Paul United Methodist Church. St. Paul's has owned and operated Bay Vista since its opening and has recently agreed to sell the property to Amerland Group, LLC (Amerland). A site map is included as Attachment 1.

Bay Vista has a project based Section 8 contract with the Department of Housing and Urban Development (HUD). Through the Section 8 contract tenants pay 30% of their incomes toward rent. Bay Vista is an "at risk" affordable housing project because the Section 8 contract expires within three years and it is possible that the rents could be converted to market rates.

Amerland intends to acquire Bay Vista, preserve and extend the affordable rents, and substantially rehabilitate the property. The proposed property renovations will include improvements to unit interiors, roof repairs, interior and exterior painting, window repairs and replacements, plumbing and landscaping upgrades, and retrofits of the community and laundry rooms. In addition, Amerland will invest in upgrading the security on the property by providing new security gates and additional common area lighting.

Housing Affordability
Through the Housing Commission's Bond Program, rents on all the units will be restricted at 50% and 60% of the Area Median Income (AMI) ($35,100 and $42,120 respectively for a family of four) for a minimum of 55 years. However, Amerland will also be seeking a 20-year extension of the HUD Section 8 contract to ensure that tenants will continue to pay 30% of their incomes toward rent after the acquisition and rehabilitation of the project. Bond Program rent and income restrictions for Bay Vista are outlined in the chart below:

Type	AMI	Unit Size (sq. ft.)	Number of Units	Restricted Rent (net of utility allowance)	Market Rate	Monthly Savings per unit
Two Bedroom	50% AMI	750	10	$760	$1,050	$290
Three Bedroom	50% AMI	950	17	$839	$1,225	$386
Two Bedroom*	60% AMI	750	90	$918	$1,050	$132
Three Bedroom	60% AMI	950	151	$1,014	$1,225	$211
Total			**268**			**$1,019**
Total Annual Savings						**$634,436**

*Includes one manager's units.

Development Team

Amerland will act as the developer of Bay Vista and act as the co-general partner of Bay Vista LP, the limited partnership that will own and operate the project. Amerland is a San Diego-based company founded in 2001 by Ruben Islas and Jules Arthur. The firm specializes in the creation and maintenance of affordable multifamily housing. Amerland currently owns 15 affordable housing developments totaling over 2,500 units. In 2001 the Housing Commission worked with Amerland to finance the acquisition and rehabilitation of the 170-unit Bella Vista Apartments located at 4742 Solola Avenue. A developer disclosure statement for Amerland is included as Attachment 2. Pacific Housing, Inc. (Pacific Housing), a California non-profit organization, will act as the managing general partner of Bay Vista LP. A developer disclosure statement for Pacific Housing is included as Attachment 3.

Financing Structure

The total development cost of the project is estimated to be approximately $35.8 million. Major cost items include property acquisition, rehabilitation, developer fee, and financing, legal, and other soft costs. A summary of development costs is included below:

Proposed Permanent Financing Uses	
Property Acquisition	$21,400,000
Rehabilitation	9,000,000
Developer Fee	2,500,000
Financing, Legal, and Other Soft Costs	2,900,000
Total	**$35,800,000**

Proposed permanent financing sources will consist of housing revenue bonds, tax credit equity, income from operations during construction, and a deferred developer fee. Estimated permanent sources of funding are summarized in the following table:

Proposed Permanent Financing Sources	
Housing Revenue Bonds	$23,200,000
Tax Credits	12,000,000
Deferred Developer Fee	400,000
Income from Operations	200,000
Total	**$35,800,000**

Public Disclosure and Bond Authorization
The bonds will be sold through a public offering with Citibank acting as the underwriter and will bear interest at a variable rate. The bonds will be credit enhanced by Fannie Mae and rated "AAA/A-1+" by Standard and Poor's.

The following documents will be executed on behalf of the Housing Authority: Official Statement, Trust Indenture, Financing Agreement, Regulatory Agreement, Intercreditor Agreement, and a Bond Purchase Agreement. At the time of docketing, all bond documents in substantially final form will be presented to members of the Housing Authority. Any changes to the documents following Housing Authority approval require the consent of the City Attorney's office and bond counsel.

An Official Statement in preliminary form will be used to market the bonds to investors. The official statement will contain limited information about the Housing Authority as the issuer. This information verifies that the Housing Authority is an appropriate issuer of the bonds and that there is no existing or threatened litigation that would jeopardize the validity of the bonds. Financial statements of the Housing Commission or Housing Authority are not included in the Official Statement. Furthermore, it is necessary for members of the Housing Authority to disclose any knowledge, not available to the general public, about the feasibility of the project. Attachment 4 contains the language regarding the Housing Authority that will be used in the Official Statement.

The bonds will be issued pursuant to a Trust Indenture between the Housing Authority and Wells Fargo (Trustee). Based upon instructions contained in the Trust Indenture, the Trustee will disburse bond proceeds for eligible costs, collect project revenues and make payments to bondholders, and hold collateral to secure payment of the bonds.

Under the terms of the Financing Agreement, the Housing Authority will loan the proceeds of the bonds to the borrower in order to acquire and rehabilitate the project. The Financing Agreement sets out the terms of repayment and the security for the loan, and the Housing Authority assigns its rights to receive repayments under the loan to the trustee.

The Regulatory Agreement will be recorded against the property in order to ensure the long-term use of the project as affordable housing. The Regulatory Agreement will also ensure that the project complies with all applicable federal and state laws.

The Bond Purchase Agreement outlines the terms under which the Housing Authority will issue and the underwriter will purchase the bonds. The Bond Purchase Agreement is executed and delivered by the Housing Authority, the borrower, and the underwriter.

The Intercreditor Agreement outlines the respective rights of the trustee on behalf of the Housing Authority and Fannie Mae in the event the Borrower defaults on any of its obligations associated with the bond financing. The Intercreditor Agreement is executed by the Housing Authority, Fannie Mae, and the Trustee. In the event of a default, Fannie Mae will have principal control and enforcement rights.

Since the bonds will not be repaid using any City or Housing Authority revenues, it is not appropriate to provide any information about the City's finances. For a summary of the Housing Commission's Multifamily Bond Program and actions that must be taken by the Housing Authority and by the City Council to initiate and finalize bond financings, please see Attachment 5.

Staff has been working with Public Financial Management (PFM), the Housing Commission's Financial Advisor, to perform due diligence concerning the proposed financing and to formulate a recommendation for the Housing Authority. After evaluating the terms of the proposed financing and the public benefits to be achieved, it is PFM's recommendation that the bond issuance for the project be authorized. PFM's analysis and recommendation to proceed is included as Attachment 6.

Staff is also working with the City's Disclosure Practices Working Group to insure that the issuance of Housing Authority bonds is in conformance with the City's disclosure requirements.

<u>FISCAL CONSIDERATIONS:</u>
There are no fiscal impacts to the Housing Commission, City, or Housing Authority associated with the requested actions. Approval of the bond inducement and TEFRA resolutions do not commit the Housing Authority to issue bonds. The bonds would not constitute a debt of the City of San Diego. If bonds are ultimately issued for the project, the bonds will not financially obligate the City, the Housing Authority or the Housing Commission because security for the repayment of the bonds will be limited to specific private revenue sources. Neither the faith and credit nor the taxing power of the City or the Authority would be pledged to the payment of the bonds. The developer is responsible for the payment of all costs under the financing, including the Housing Commission's annual administrative fee.

<u>PREVIOUS HOUSING AUTHORITY And/Or COMMITTEE ACTIONS:</u>
On September 27, 2007, the Housing Authority and City Council approved preliminary bond items for the project.

<u>COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:</u>
On September 27, 2007, the Housing Commission approved preliminary bond items for the Bay Vista and on December 14, 2007, the Housing Commission recommended that the Housing Authority issue bonds for the project. On December 11, 2007, Amerland presented their proposal for Bay Vista to the Knox/Lincoln Park Town Council.

KEY STAKEHOLDERS & PROJECTED IMPACTS:
The residents of Bay Vista are stakeholders. Amerland will acquire and rehabilitate the project. The seller of the property is a non-profit established by St. Paul's United Methodist Church. The tax credit investor for the project is Red Capital Markets, the underwriter is Citibank, and the mortgage lender is ARCS Commercial Mortgage.

Respectfully submitted,	Approved by,
Cissy Fisher	Elizabeth C. Morris
Director of Housing Finance & Development	President & Chief Executive Officer

Attachments:

1. Site Map
2. Amerland Developer Disclosure Statement*
3. Pacific Housing Developer Disclosure Statement*
4. Housing Authority Disclosure Summary
5. Multifamily Bond Program Summary
6. Financial Advisor's Analysis

Distribution of these attachments may be limited. Copies available for review during business hours at the Housing Commission offices at 1122 Broadway, Main Lobby.

Attachment 5

HOUSING COMMISSION MULTIFAMILY
HOUSING REVENUE BOND PROGRAM
Summary

General Description: The multifamily housing bond program provides below-market financing (based on bond interest being exempt from income tax) for developers willing to set aside a percentage of project units as affordable housing. Multifamily housing revenue bonds are also known as “private activity bonds” bonds because the projects are owned by private entities, often including nonprofit sponsors and for-profit investors.

Bond Issuer: Housing Authority of the City of San Diego. There is no direct legal liability to the City, the Housing Authority or the Housing Commission in connection with the issuance or repayment of bonds; there is no pledge of the City’s or the Housing Authority’s faith, credit or taxing power. The bonds do not constitute a general obligation of the issuer because security for repayment of the bonds is limited to specific private revenue sources, such as project revenues. The developer is responsible for the payment of costs of issuance and all other costs under each financing.

Affordability: Minimum requirement is that at least 20% of the units are affordable at 50% of Area Median Income (AMI). Alternatively, a minimum of 10% of the units may be affordable at 50% AMI with an additional 30% of the units affordable at 60% AMI. The Housing Commission requires that the affordability restriction be in place for a minimum of 15 years. In practice, projects financed by multifamily housing bonds are affordable for a minimum of 30 years. Bonds may also be combined with other financing sources to create deeper affordability and longer terms of restriction.

Rating: Generally “AAA” or its equivalent with a minimum rating of “A” or, under conditions that meet IRS and Housing Commission requirements, bonds may be unrated for private placement with institutional investors (typically, large banks). Additional security is normally achieved through the provision of outside credit support (“credit enhancement”) by participating financial institutions that underwrite the project loans and guarantee the repayment of the bonds. The credit rating on the bonds reflects the credit quality of the credit enhancement provider.

Approval Process:

- Inducement Resolution: The bond process is initiated when the issuer (Housing Authority) adopts an “Inducement Resolution” to establish the date from which project costs may be reimbursable from bond proceeds (if bonds are later issued) and to authorize staff to work with financing team to perform a due diligence process. The Inducement Resolution does not represent any commitment by the Housing Commission, Housing Authority, or the developer to proceed with the financing.

- TEFRA Hearing and Resolution (Tax Equity and Fiscal Responsibility Act of 1982): To assure that projects making use of tax-exempt financing meet appropriate governmental purposes and provide reasonable public benefits, IRS Code requires that a public hearing be held and that the issuance of bonds be approved by representatives of the governmental unit with jurisdiction over the area in which the project is located (City Council). This process does not make the City financially or legally liable for the bonds or for the project.

  [Note: It is uncommon for the members of the City Council to be asked to take two actions at this stage in the bond process---one in their capacity as the City Council (TEFRA hearing and resolution) and another as the Housing Authority (bond inducement). Were the issuer (Housing Authority) a more remote entity, the TEFRA hearing and resolution would be the only opportunity for local elected officials to weigh in on the project.]

- Application for Bond Allocation: The issuance of these “private activity bonds” (bonds for projects owned by private developers, including projects with nonprofit sponsors and for-profit investors) requires an allocation of bond issuing authority from the State of California. To apply for an allocation, an application approved by the Housing Authority and supported by an adopted inducement resolution and by proof of credit enhancement (or bond rating) must be filed with the California Debt Limit Allocation Committee (CDLAC). In addition, evidence of a TEFRA hearing and approval must be submitted prior to the CDLAC meeting.

- Final Bond Approval: The Housing Authority retains absolute discretion over the issuance of bonds through adoption of a final resolution authorizing the issuance. Prior to final consideration of the proposed bond issuance, the project must comply with all applicable financing, affordability, and legal requirements and undergo all required planning procedures/reviews by local planning groups, etc.

- Funding and Bond Administration: All monies are held and accounted for by a third party trustee. The trustee disburses proceeds from bond sales to the developer in order to acquire and/or construct the housing project. Rental income used to make bond payments is collected from the developer by the trustee and disbursed to bond holders. If rents are insufficient to make bond payments, the trustee obtains funds from the credit enhancement provider. No monies are transferred through the Housing Commission or Housing Authority, and the trustee has no standing to ask the issuer for funds.

Bond Disclosure: The offering document (typically a Preliminary Offering Statement or bond placement memorandum) discloses relevant information regarding the project, the developer, and the credit enhancement provider. Since the Housing Authority is not responsible, in any way, for bond repayment, there are no financial statements or summaries about the Housing Authority or the City that are included as part of the offering document. The offering document includes a paragraph that states that the

Housing Authority is a legal entity with the authority to issue multifamily housing bonds and that the Housing Commission acts on the behalf of the Housing Authority to issue the bonds. The offering document also includes a paragraph that details that there is no pending or threatened litigation that would affect the validity of the bonds or curtail the ability of the Housing Authority to issue bonds. This is the extent of the disclosure required of the Housing Authority, Housing Commission, or the City. However, it is the obligation of members of the Housing Authority to disclose any material facts known about the project, not available to the general public, which might have an impact on the viability of the project.